E.U. weighs options to ease pain for weak nations

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BY JAMES KANTER

Euro zone finance ministers began meeting here Thursday as momentum grew to ease the terms of Greece's bailout even as pressure mounted to help Spain and other troubled members of the bloc.

Some ministers emphasized that the election of a pro-euro government in Athens opened the door to the possibility of negotiating a revised program with the country's international creditors that could give the Greeks more time to get their budget deficit under control.

Pierre Moscovici, the French finance minister, signaled that the time was right to offer Greece new terms.

"We know that it means that Greece will have to respect its commitments," Mr. Moscovici said. "But it also means that Europe has to be sensitive to the feelings of the Greek people, and take measures in order to help the country achieve growth."

"Efforts must be made, but at the same time we have to create conditions for hope," he said.

The Greek economy has gone from bad to worse in recent months and Athens has struggled to implement an austerity program that would yield billions of euros in savings. The rapid decline of the economy in Greece prompted a senior E.U. official to warn this week that it would be "stupid" and "delusional" not to adjust the terms of the bailout.

Yet granting Greece more time to reach its targets will also face resistance from Germany, Finland and other countries who fear that if Greece does not return to the financial markets in 2014 as planned, they would have to kick in even more money to keep Greece afloat.

Other finance ministers seems skeptical about easing terms. Maria Fekter the Austrian finance minister, suggested that, "Greece will have to work even harder," even if its progress was delayed by its inability to form a government in the past weeks. The Dutch finance minister, Jan Kees de Jager, noted that there was no "alternative to hard, painful reform."

Before any new terms are offered, officials from the so-called troika of the European Commission, the European

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Central Bank and the International Monetary Fund are expected to make a fact-finding trip to Athens to assess whether Greeks should be afforded more time to right its finances.

Meanwhile, even though Vassilios Rapanos, the head of the country’s biggest bank, had been appointed finance minister in the new Greek government, he had not yet been sworn in. His predecessor, Giorgios Zanias, represented his country at the meeting in Luxembourg on Thursday.

Another pressing issue on the ministers’ agenda was the thorny question of how quickly to assist Spanish banks, and where the money should come from. Compounding the concerns over Spain, a bond sale early Thursday required the government in Madrid to offer a punitively high return as its borrowing costs soared to record levels.

The meeting in Luxembourg to coincided with the release of two independent assessments that suggested that Spanish banks needed as much as €62 billion, or $78 billion, of fresh capital.

But Luis de Guindos, the Spanish economy minister, on Thursday ruled out making an immediate request for a bailout.

“We will present the request in the next few days,” Mr. de Guindos said. “I think that before the end of July we will have an idea, a very clear, detailed idea” of how the bailout will be structured.

Mr. de Guindos added that talks on the structure of the deal already were under way with E.U. officials, the E.C.B. and the I.M.F.

Helping Spain is far from straightforward, given the amounts of money involved — euro zone members have offered up to €100 billion — and given the desire of creditors to minimize their exposure to that scale of lending.

E.U. diplomats have been wrangling this week over using an existing but temporary bailout fund called the European Financial Stability Facility to help Spain, or waiting until enough E.U. member states approve the deployment of a new, permanent fund called the European Stability Mechanism.

Approval for the E.S.M. to start lending could come next month and would have less of an impact on the balance sheets of lenders than the existing facility.

The E.S.M. also would have senior creditor status in case of a default, meaning it would get paid back first. While that is good for taxpayers from

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creditor nations, it could be bad for borrowing countries if it scares away private investors and keeps borrowing costs high.

Overcoming those concerns could delay a final agreement on a rescue package for Spain.

The "strong preference of the Germans and other conservative northern countries is to wait" before intervening to help Spain, said Mujtaba Rahman, an analyst for Europe at the Eurasia Group.

Ministers were also expected to discuss the situation in Cyprus, which faces a June 30 deadline from regulators to find €1.8 billion to recapitalize its second-largest bank, Cyprus Popular Bank, and where a bailout may also be necessary.

Yet another concern for ministers is Italy, which has been pushing a proposal designed to combat the recent increase in its costs of borrowing.

Italy has put forward a plan that would allow the European bailout funds to buy government bonds directly in the secondary market on a semi-automatic basis. The French president, François Hollande, has lent his support for exploring that idea.

While the European bailout funds already have the power to buy bonds, that capacity has not yet been tapped, and Germany has been lukewarm on the idea.

Upon his arrival at the meeting Thursday, Wolfgang Schäuble, the German finance minister, expressed a measure of frustration at the publicity the Italian initiative was garnering.

"There are several instruments with which the means can be used efficiently,

Bond buying is little more than "financial paracetamol."

by leveraging and so forth, but we don't constantly need public discussions," Mr. Schäuble said.

The proposal also has met with skepticism from the European Commission, where a spokesman, Amadeu Altafaj, said Wednesday that bond buying would be little more than "financial paracetamol" offering a measure of immediate relief but failing to remedy underlying problems.

Even so, Chancellor Angela Merkel of Germany may still come under pressure to revisit the idea when she meets Prime Minister Mario Monti of Italy, Prime Minister Mariano Rajoy of Spain and Mr. Hollande in Rome on Friday.

Ministers were also expected to continue discussions over who would take some senior positions in the euro zone's financial hierarchy, including a position on the E.C.B. governing board, the leadership of the E.S.M. and the role of head of the group of countries using the euro, a post long held by Jean-Claude Juncker, the prime minister of Luxembourg, whose term expires in mid-July.

But given an already heavy agenda in Luxembourg, no decisions were expected.

Paul Geitner contributed reporting in